

YELLOWSTONE COUNTY SCHOOL DISTRICT NO. 2

BILLINGS, MONTANA

FINANCIAL AND COMPLIANCE AUDIT REPORT

COMPREHENSIVE EMPLOYMENT AND TRAINING ACT

FROM OCTOBER 1, 1978 TO SEPTEMBER 30, 1979

(Except for CETA Subgrant No. 9280, Title III STIP

Which Was for the Period from February 1, 1979

To November 15, 1979)

PLEASE RETURN



McClellan-Hendrickson & Co.

1000 15th St. N. Helena, MT 59601

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AUDIT ORGANIZATION

McGLADREY HENDRICKSON & CO.

BILLINGS, MONTANA

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To the Legislative Audit Committee
Montana State Legislature
Helena, Montana

SUMMARY

We have examined the Schedules listed in the foregoing table of contents which summarize reported financial results and cash position of subgrants awarded by the State of Montana, Department of Labor and Industry, Governor's Employment and Training Council to Yellowstone County School District No. 2 as follows:

<u>Grant Number</u>	<u>Prime Sponsor Subgrant Number</u>	<u>CETA Title</u>	<u>Contract Period</u>	<u>Audit Period</u>
30-9-210-18	9191	II ABC	10/01/78 - 09/30/79	10/01/78 - 09/30/79
30-8-210-45 and 30-9-210-05	9280	III STIP	02/01/79 - 11/15/79	02/01/79 - 11/15/79

The audit disclosed:

- Support documentation for an April, 1979 adjustment did not leave a clear audit trail.
- Counselor's fringe benefits were misclassified as training.
- An overpayment was made to the Billings Vo-Tech Center bookstore.

Exhibits I and II list \$775 of questionable expenditures disclosed by the audit. The determination as to whether the costs will be allowable or unallowable under the subgrant will be made by the State of Montana, Department of Labor and Industry, Governor's Employment and Training Council. Exhibits I and II were not prepared for purposes of statistical projection.

SCOPE OF AUDIT

This report covers our examination of the financial results of program operations of the Subgrantee for the subgrants and for the periods referred to in the preceding Summary.

Our examination was made in accordance with instructions contained in the CETA Financial and Compliance Audit Guide and provisions of the "Standards for Audit of Governmental Organizations, Programs, Activities and Functions", promulgated by the Comptroller General, which pertain to financial and compliance audits.

Our examination included such tests of the accounting and program records and such other auditing procedures as we considered necessary in the circumstances.

The aforementioned Schedules are required to be prepared in accordance with the Standards for Grantee Financial Management Systems (Federal Management Circular 74-7, Attachment G) in conformity with the CETA Regulations; therefore, they are not intended to present either the financial results of operations or financial position in conformity with generally accepted accounting principles.

Statistical sampling is the preferred method of selecting a sample. Accordingly, in any area where the volume of transactions and record locations would permit, we have used statistical sampling for purposes of determining the audit sample size, selecting the sample items and evaluating the results for the periods examined. Our tests were designed on an attribute sampling basis, based on an expected rate of occurrence of 3% and a confidence level of 90%.

BACKGROUND -

Our audit consisted of an examination of the financial and program records related to CETA programs operated by the Subgrantee.

The objectives of the audit were to determine whether the financial operations were properly conducted and documented, whether the Schedules were fairly presented and whether the Subgrantee complied with applicable laws and regulations. Our examination did not include a review of economy and efficiency or a review to determine whether desired results or benefits were achieved.

The audit was made by arrangement with the Prime Sponsor, State of Montana, Department of Labor and Industry, Governor's Employment and Training Council, to provide audits required by the United States Department of Labor and to provide the Prime Sponsor with information about the Subgrantee. The audit covered the period October 1, 1978 to September 30, 1979 for all subgrants ended during that period, except for CETA subgrant No. 9280 which was for the period February 1, 1979 to November 15, 1979.

The Subgrantee examined in this audit was Yellowstone County School District No. 2. The audit covered all subgrants between the Prime Sponsor and the Subgrantee operated during the applicable periods. These were the first subgrants between the Prime Sponsor and the Subgrantee. Consequently, there was no prior year audit report.

OPINION

Exhibits I and II list \$775 of questioned costs disclosed by our audit sampling of the Subgrantee's subgrant records for the periods referred to in the preceding Summary. The determination as to whether such costs will be allowable or unallowable under the subgrant agreement will be made by the State of Montana, Department of Labor and Industry, Governor's Employment and Training Council.

In our opinion, subject to any effects of the ultimate resolution of questioned costs, the Schedules listed in the foregoing table of contents present fairly, for the dates and periods indicated on the Schedules, the financial results of operations and CETA cash position of the subgrants awarded to Yellowstone County School District No. 2 in accordance with the Standards for Grantee Financial Management Systems (Federal Management Circular, Attachment G) and in conformity with the CETA regulations; and Exhibits I and II present fairly the costs questioned as a result of our audit.

FINDINGS AND RECOMMENDATIONS

Audit Trail (Subgrant No. 9191)

For most transactions there was a satisfactory audit trail from the accounting records to source documentation. However, there was one large adjustment made to subgrant No. 9191 in April, 1979 for which supporting computations could not be followed. The adjustment was necessary because of a retroactive change in the rate at which salaries and fringe benefits were charged to CETA. This change affected the rates for other programs as well, further complicating the adjustment and supporting workpapers. Some of the computations were inadequately referenced from one computation to another, and at the time of audit, District personnel could not adequately explain the workpapers. Since this type of adjustment is likely to occur in future programs, the Subgrantee should develop procedures for documenting such adjustments.

Recommendation

Develop procedures that provide a clear audit trail in documenting adjusting entries

Cost Classification (Subgrant No. 9191)

Although the CETA share of the Counselor's salary was correctly classified in the services cost category, the fringe benefits applicable to his salary were included as training costs. The Subgrantee's workpapers supporting the closeout report had a single balance for fringe benefits, all of which were included as training on the closeout. As a result, training is overstated and services understated by approximately \$475. If this amount were included in services, a budget modification would have been required.

Recommendation

Allocate all applicable costs among CETA cost categories.

Double Payment (Subgrant No. 9280)

During the course of the year, participant supplies were purchased from the Vo-Tech Bookstore through several dozen individual purchases. The bookstore submitted periodic statements to the program listing invoice numbers, date of purchase, and amounts. From these statements, payment was made to the Bookstore. The invoices are retained at the Vo-Tech Center but copies are not forwarded to the District's accounting office. Although the statements are reviewed before authorization for payment, a payment was made on two statements which contained two of the same invoices. This type of over-payment could be avoided if copies of the individual invoices are attached to the periodic statements and retained at the District's accounting office.

Recommendation

Attach copies of the Vo-Tech Bookstore invoices to the statements submitted for payment.

REVIEW OF INTERNAL ACCOUNTING AND ADMINISTRATIVE CONTROLS

As part of our examination, we made a study of the systems of internal accounting and administrative control to the extent we considered necessary to evaluate the systems as required by the CETA Audit Guide.

The objective of internal accounting and administrative control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting and administrative control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with procedures may deteriorate.

Our study and evaluation of the system of internal accounting and administrative control for the periods referred to in the preceding Summary would not necessarily disclose all weaknesses in the system; however, in our opinion, the internal accounting and administrative control procedures are in general agreement with procedures prescribed by Federal Regulations and the Department of Labor CETA guidelines which have been determined to be adequate for accountability of assets and compliance with regulations.

EXIT CONFERENCE

An exit conference was held at Helena, Montana on August 5, 1980. Those in attendance were:

Subgrantee- Dick Reich, District Clerk

Prime Sponsor:

Florine Smith, Fiscal Bureau Chief

Pat Emerson, Fiscal Manager

Auditors:

Richard Burris, Manager

Norm Kolpin, Staff

William Erickson, Staff

Audit findings and recommendations were discussed. General agreement was reached as to the need for change.

This report is intended for use in connection with the administration of CETA grants to which it refers and should not be used for any other purposes.

McGladrey Henderson & Co.

Billings, Montana

April 18, 1980

YELLOWSTONE COUNTY SCHOOL DISTRICT NO. 2SUMMARY STATEMENT OF ACCRUED EXPENDITURESFROM OCTOBER 1, 1978 TO SEPTEMBER 30, 1979(Except Subgrant 9280 Ending November 15, 1979)

<u>COST CATEGORY</u>	<u>T I T L E</u>				<u>T O T A L</u>	
	<u>II ABC</u>		<u>III</u>		<u>Budget</u>	<u>Accrued Expendi- tures</u>
	<u>Budget</u>	<u>Accrued Expendi- tures</u>	<u>Budget</u>	<u>Accrued Expendi- tures</u>		
Administration	\$ -	\$ -	\$ 3,788	\$ 3,666	\$ 3,788	\$ 3,666
Training	31,369	30,946	64,596	50,430	95,964	81,376
Services	<u>2,900</u>	<u>2,894</u>	<u>-</u>	<u>-</u>	<u>2,900</u>	<u>2,894</u>
Totals	<u>\$ 34,269</u>	<u>\$ 33,840</u>	<u>\$ 68,383</u>	<u>\$ 54,096</u>	<u>\$ 102,652</u>	<u>\$ 87,936</u>

See Notes to Schedules and Exhibits.

YELLOWSTONE COUNTY SCHOOL DISTRICT NO. 2SUMMARY STATEMENT OF ACCRUED EXPENDITURES BY PROGRAM ACTIVITYFROM OCTOBER 1, 1978 TO SEPTEMBER 30, 1979(Except Subgrant 9280 Ending November 15, 1979)

<u>PROGRAM ACTIVITY</u>	<u>T I T L E</u>				<u>T O T A L</u>	
	<u>II ABC</u>		<u>III</u>		<u>Budget</u>	<u>Accrued Expenditures</u>
	<u>Budget</u>	<u>Accrued Expenditures</u>	<u>Budget</u>	<u>Accrued Expenditures</u>		
Classroom training	<u>\$ 34,269</u>	<u>\$ 33,840</u>	<u>\$ 68,383</u>	<u>\$ 54,096</u>	<u>\$ 102,652</u>	<u>\$ 87,936</u>

YELLOWSTONE COUNTY SCHOOL DISTRICT NO. 2

CETA SUBGRANT NO. 9191, TITLE II ABC

STATUS OF FEDERAL CASH

FROM OCTOBER 1, 1978 TO SEPTEMBER 30, 1979

CASH ON HAND, October 1, 1978	\$ -
INCREASES-	
Federal cash received	34,200
DECREASES-	
Gross disbursements	<u>33,840</u>
CASH ON HAND, September 30, 1979	<u><u>\$ 360</u></u>

YELLOWSTONE COUNTY SCHOOL DISTRICT NO. 2CETA SUBGRANT NO. 9191, TITLE II ABCADULT BASIC EDUCATIONSTATEMENT OF ACCRUED EXPENDITURESFROM OCTOBER 1, 1978 TO SEPTEMBER 30, 1979

<u>COST CATEGORY</u>	<u>Total Subgrant Budget</u>	<u>Total Accrued Expendi- tures</u>
Training	\$ 31,369	\$ 30,946
Services	<u>2,900</u>	<u>2,894</u>
Totals	<u>\$ 34,269</u>	<u>\$ 33,840</u>

See Notes to Schedules and Exhibits.

YELLOWSTONE COUNTY SCHOOL DISTRICT NO. 2

CETA SUBGRANT NO. 9191, TITLE II ABC

SUMMARY SCHEDULE OF QUESTIONED COSTS

FROM OCTOBER 1, 1978 TO SEPTEMBER 30, 1979

<u>COST CATEGORY</u>	<u>Total Amount Questioned</u>	<u>Supporting Exhibit</u>
Training	<u>\$ 535</u>	I-A

See Notes to Schedules and Exhibits.

YELLOWSTONE COUNTY SCHOOL DISTRICT NO. 2

CETA SUBGRANT NO. 9191, TITLE II ABC

DETAILED SCHEDULE OF QUESTIONED COSTS

FROM OCTOBER 1, 1978 TO SEPTEMBER 30, 1979

An adjustment was made in April, 1979 retroactively adjusting the percentage of teachers' and aides' salaries allocated to CETA from 14.9% to 22%. It appears CETA was overcharged \$535 in the adjustment. It was not possible to trace through the supporting workpapers to determine the cause of the discrepancy and the \$535 is questioned. It should be noted, however, that the Subgrantee did not allocate June, 1979 teacher's aides' salaries to CETA because of lack of funds in the subgrant budget. If the apparent error had not been made, an additional \$327 could have been allocated to CETA that month.

YELLOWSTONE COUNTY SCHOOL DISTRICT NO. 2

CETA SUBGRANT NO. 9280, TITLE III STIP

STATUS OF FEDERAL CASH

FROM FEBRUARY 1, 1979 TO NOVEMBER 15, 1979

CASH ON HAND, February 1, 1979	\$ -
INCREASES-	
Federal cash received	53,983
DECREASES-	
Gross-disbursements	<u>54,038</u>
CASH (DEFICIT), November 15, 1979 (Note 2)	<u><u>\$ (55)</u></u>

YELLOWSTONE COUNTY SCHOOL DISTRICT NO. 2

CETA SUBGRANT NO. 9280, TITLE III STIP

CLASSROOM TRAINING

STATEMENT OF ACCRUED EXPENDITURES

FROM FEBRUARY 1, 1979 TO NOVEMBER 15, 1979

<u>COST CATEGORY</u>	<u>Total Subgrant Budget</u>	<u>Total Accrued Expendi- tures</u>
Administration	\$ 3,788	\$ 3,666
Training	<u>64,595</u>	<u>50,430</u>
Totals	<u>\$ 68,383</u>	<u>\$ 54,096</u>

See Notes to Schedules and Exhibits.

YELLOWSTONE COUNTY SCHOOL DISTRICT NO. 2

CETA SUBGRANT NO. 9280, TITLE III STIP

SUMMARY SCHEDULE OF QUESTIONED COSTS

FROM FEBRUARY 1, 1979 TO NOVEMBER 15, 1979

<u>COST CATEGORY</u>	<u>Total Amount Questioned</u>	<u>Supporting Exhibit</u>
Training	<u>\$ 240</u>	II-A

See Notes to Schedules and Exhibits.

BILLINGS SCHOOL DISTRICT NO. 2

CETA SUBGRANT NO. 9280, TITLE III STIP

DETAILED SCHEDULE OF QUESTIONED COSTS

FROM FEBRUARY 1, 1979 TO NOVEMBER 15, 1979

An April 10, 1979 and an April 30, 1979 statement from the Billings Vo-Tech Center Bookstore both listed invoices 5126 for \$110 and 5135 for \$130 for payment. CETA was charged the full amount of each statement, resulting in a \$240 overpayment to the Bookstore. The \$240 CETA overpayment is questioned.

NOTES TO SCHEDULES AND EXHIBITS

1. SIGNIFICANT ACCOUNTING POLICIES AND PROGRAM INCOME:

The Schedules have been prepared in accordance with instructions contained in Standards For Grantee Financial Management Systems (Federal Management Circular 74-7, Attachment G) and in conformity with CETA Regulations. In accordance with these instructions, federal funds received are recognized when cash is received. Expenditures are recognized when incurred. This basis of accounting is not in accordance with generally accepted accounting principles.

No program income was received by any of the subgrant programs during the period covered by these Schedules.

2. CASH DEFICIT:

Subgrant No. 9280 had a cash deficit as of November 15, 1979. The deficit resulted from insufficient drawings near the end of the subgrant period, and was being covered temporarily by cash in the Subgrantee's other programs.

3. ADMINISTRATIVE COST POOL:

On April 1, 1979, the Prime Sponsor entered into an Administrative Cost Pool grant with the U.S. Department of Labor. Administrative costs subsequently incurred by subgrantees were funded from the Administrative Cost Pool. The Prime Sponsor did not require subgrantees to separately report administrative costs funded from the Administrative Cost Pool. Administrative costs funded from the Administrative Cost Pool for Title III were \$2,424.

A P P E N D I X

DEPARTMENT OF LABOR AND INDUSTRY
EMPLOYMENT AND TRAINING DIVISION



THOMAS L. JUDGE, GOVERNOR

STATE CAPITOL

STATE OF MONTANA

(406) 449-5600

HELENA, MONTANA 59601

September 22, 1980

Matt Hims1, Chairperson
Legislative Audit Committee
Montana State Legislature
Office of Legislative Auditor
State Capitol
Helena, MT 59601

Dear Mr. Hims1:

Enclosed is the draft Audit Report which we have accepted for Yellowstone County School District No. 2, Billings, Montana for CETA Fiscal Year 1979 Subgrants:

- 9191 - Title IIABC, Adult Basic Education
- 9280 - Title III, Skill Training Improvement Program (STIP)

This audit was conducted by McGladrey, Hendrickson & Co., CPA's, under contract with the Employment and Training Division, Department of Labor and Industry. The comments and recommendations contained in this report represent the views of the auditing firm.

Upon your review of this audit report, we will begin a 120 day resolution process with the subgrantee as follows:

1. A copy of the final audit report will be sent to the subgrantee for a thirty (30) day comment period. All findings and recommendations are to be addressed by the subgrantee in their response.
2. The Employment and Training Division will issue a written initial determination which will include a notice giving the subgrantee the opportunity for informal resolution.
3. The subgrantee must request an opportunity for informal resolution within ten (10) days in writing. Following the meeting of all appropriate parties, the Employment and Training Division will notify the subgrantee in writing of the nature of the resolution, if all matters have been informally resolved.
4. The Employment and Training Division will issue a final determination no later than 120 days after the audit report has become final. The final determination will include those

matters which were not informally resolved, corrective actions which will be necessary, and inform the subgrantee of the opportunity to request a hearing. Within thirty (30) days of the receipt of the final determination, the subgrantee must submit in writing a request for hearing to the Employment and Training Division.

The Employment and Training Division will attempt to recover all funds which were not expended in accordance with CETA law and regulations. We will also follow-up on any corrective actions necessary for the subgrantee.

Sincerely,

A handwritten signature in dark ink, appearing to read "T. Gary Curtis". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

T. GARY CURTIS
Administrator

Enclosure

FB2/A

